

U.S.-Australia Free Trade Agreement: Opportunities for the Automotive Parts Industry

The United States and Australia Free Trade Agreement (FTA) was concluded on February 8, 2004. The Agreement is expected to come into force in January 2005. More than 99 percent of U.S. manufactured goods exports to Australia will become duty-free immediately upon entry into force of the Agreement. When the Agreement is implemented, the U.S. will immediately eliminate tariffs on all vehicles and automotive parts, including the current 25 percent U.S. tariff on commercial vehicles and trucks.

Key Auto Parts Provisions

In March 2004, the Congressionally mandated Industry Sector Advisory Committee 16 (ISAC 16), which included members of the auto and auto parts industry, cited the following key areas in the negotiated agreement:

- Elimination of tariffs on products certified as meeting defined rules of origin;
- Removal of non-tariff measures;
- Assured equivalent tariff treatment and market access for remanufactured as well as new motor vehicle components and assemblies; and,
- Improved protection of intellectual property rights.

Australia currently applies substantially higher tariffs on most categories of motor vehicles and motor vehicle parts than does the United States. Australian motor vehicle parts tariffs run between 5 and 10 percent while motor vehicle tariffs run between 5 and 15 percent. Australia will immediately eliminate tariffs on automotive parts and commercial vehicles from the United States and will phase out tariffs on passenger vehicles from 10 percent in 2005 to zero in 2010.

Unlike many countries around the globe Australia has not been discriminating against the import of remanufactured motor vehicle parts. Nonetheless, this issue is the principal non-tariff measure that the industry hoped to address in the agreement because many countries around the world do restrict imports of these products. They do so often under the same environmental restrictions designed to prevent the dumping of worn out “used” goods.

For economic and environmental reasons, remanufactured parts are gaining an expanding share of world markets. Production of remanufactured goods uses fewer material and energy inputs than traditional manufacturing. Lower input costs also results in cost savings for consumers. Therefore, the industry has established a goal of ensuring – in all pending bilateral, regional, and multilateral free trade agreements – explicit provisions ensuring equal customs treatment (elimination of tariffs and non-tariff measures) of new and remanufactured motor vehicle parts. The U.S.-Australia FTA addresses this problem ensuring equal treatment.

The Agreement also complements and enhances existing international standards for the protection of intellectual property and the enforcement of intellectual property rights, consistent with U.S. law. On patents, the Parties agree to make patents available for any invention, subject to limited exclusions, and confirm the availability of patents for new uses or methods of using a known product. To guard against arbitrary revocation, each Party must limit the grounds for revoking a patent to the grounds that would have justified a refusal to grant the patent. The Agreement requires patent term adjustments to compensate for unreasonable delays that occur while granting the patent, as well as unreasonable curtailment of the effective patent term as a result of the marketing approval process for pharmaceutical products.

The Agreement establishes that trademarks include marks in respect of goods and services, collective marks, and certification marks. Each Party must provide protection for marks, as well as efficient and transparent procedures governing the application for protection of marks. The Agreement also provides for rules on domain name management that require a dispute resolution procedure to prevent trademark cyber-piracy.

Finally, the FTA establishes strong penalties for piracy and counterfeiting. The Agreement criminalizes end-user piracy and requires both the United States and Australia to authorize the seizure, forfeiture, and destruction of counterfeit and pirated goods and the equipment used to produce them. Each Party must apply criminal penalties against counterfeiting and piracy, including end-user piracy. The Agreement specifies that each Party must empower its law enforcement agencies to take enforcement action at the border against pirated or counterfeit goods without waiting for a formal complaint.

Trade

The United States had an automotive parts trade surplus of \$451 million with Australia in 2003. Australia was the sixth largest U.S. automotive parts export market. Total U.S. auto parts exports were \$656 million in 2003, a 6.6 percent increase from 2002. The chart below lists U.S. automotive parts export trade composition by product categories:

U.S. Automotive Parts Exports to Australia					
Product Group	U.S. Dollars (in 1,000s)				
	1999	2000	2001	2002	2003
Chassis & Drivetrain	67,859	76,813	146,944	189,334	206,071
Misc. Parts	281,263	423,437	240,129	179,435	192,589
Engines & Parts	106,113	112,975	124,526	164,621	146,532
Bodies & Parts	25,623	34,937	17,481	28,563	56,620
Electronic Parts	52,313	25,713	21,679	28,217	28,124
Tires & Tubes	31,214	26,096	26,202	24,768	25,723

Source: Census Bureau via U.S. International Trade Commission (ITC) TradeDataWeb, using Office of Aerospace and Automotive Industries' product groups.

As the chart shows, chassis and drivetrain parts are the largest component of U.S. auto parts exports to

Australia. U.S. exports of this product category increased by 8.8 percent in 2003. More than half of these exports (\$120 million) are for a single Harmonized Tariff System (HTS or HS) number 8708402000 - Gear boxes and parts for vehicles of HS heading 8703.

The United States imported \$205 million worth of automotive parts from Australia in 2003, a 3.3 percent increase from 2002. Chassis and drivetrain parts were also the largest import subgroup:

U.S. Automotive Parts Imports From Australia					
Product Group	U.S. Dollars (in 1,000s)				
	1999	2000	2001	2002	2003
Chassis & Drivetrain	136,114	146,225	108,739	123,900	142,105
Bodies & Parts	42,440	42,380	11,690	18,083	20,017
Electronic Parts	30,569	29,380	21,579	15,748	12,412
Engines & Parts	16,667	20,297	28,160	17,626	10,509
Misc. Parts	3,977	3,436	6,947	14,373	9,149
Tires & Tubes	18,339	9,127	3,729	2,589	2,845

Source: Census Bureau via U.S. International Trade Commission (ITC) TradeDataWeb, using Office of Aerospace and Automotive Industries' product groups.

Similar to the top export category, one HS line also accounted for much of the U.S. chassis and drivetrain imports from Australia in 2003. The U.S. imported \$91 million of HS 8708395050 - Brake and servo-brakes and parts not otherwise specified of motor vehicles of HS headings 8701 to 8705 from Australia.

Australian vehicle imports are valued at approximately \$7.5 billion. Its vehicle imports are led by Japan, with 57.46 percent of the total, followed by Germany, with 15.65 percent and then South Africa with 4.69 percent. The United States ranked fifth accounting for 3.92 percent of Australian vehicle imports.

The following two charts detail Australia's top automotive parts trading partners:

Top 10 Australian Automotive Parts Import Sources					
Partner Country	U.S. Dollars				
	1999	2000	2001	2002	2003
World	4,717,432,531	4,963,013,066	4,319,530,254	4,615,275,136	5,923,133,455
Japan	1,108,639,611	1,178,261,356	1,009,199,300	977,347,861	1,195,720,527
United States	1,009,018,238	1,082,012,734	912,265,264	957,677,397	1,004,868,801
Korea South	429,419,305	597,810,854	539,460,055	494,683,918	801,581,586
China	129,626,038	149,623,049	200,416,968	255,802,388	438,547,357
Germany	353,986,705	313,891,694	235,746,373	254,856,989	410,859,850
Thailand	91,139,549	105,789,153	117,101,393	150,127,096	214,455,746
Sweden	185,650,782	125,855,815	75,783,500	116,010,975	171,902,114
Malaysia	147,729,788	213,120,340	125,582,113	153,589,167	162,174,681
Canada	150,193,258	74,119,143	112,268,832	143,172,895	161,971,751
Taiwan	95,694,685	100,362,143	95,169,532	120,050,043	153,503,146

Source: Global TradeAtlas, using Office of Aerospace and Automotive Industries' selection of 6-digit HTS codes.

As the above and following charts show, Australia is a net importer of automotive parts. While Australia has a competitive parts industry, locally invested vehicle assemblers source many major parts from outside the country. These imports tend to originate in the traditional home markets of the vehicle assemblers. GM's Holden, which is the largest importer of auto engine components and transmissions from the United States, will also benefit from the cost savings the parts tariff elimination will bring. In 2010, Australia is scheduled to lower import tariffs to 5 percent under its Asia-Pacific Economic Co-operation (APEC) agreement. Australia's average rate of duty is currently 8 percent.

Top 10 Australian Automotive Parts Export Markets					
Partner Country	U.S. Dollars				
	1999	2000	2001	2002	2003
World	1,187,560,080	1,265,962,379	1,044,612,198	1,102,180,593	1,341,337,914
Korea South	166,570,512	269,175,158	178,556,816	201,691,816	298,633,442
United States	321,757,247	304,401,501	248,003,342	250,475,132	285,044,338
New Zealand	115,221,771	103,995,257	107,648,906	124,432,911	141,993,246
Unidentified Country	76,859,130	91,336,461	82,858,883	83,274,517	111,948,002
Japan	113,385,906	118,956,791	71,172,903	80,139,702	57,139,928
China	8,219,971	5,581,462	11,622,950	14,728,157	43,929,158
Papua New Guinea	24,513,838	28,145,683	36,901,054	37,564,163	41,514,170
Indonesia	26,617,444	39,743,818	33,402,527	40,270,321	38,467,416
United Kingdom	64,943,549	47,785,053	34,329,556	35,717,225	30,039,970
Thailand	14,517,371	11,229,866	10,495,703	16,691,452	29,896,140

Source: Global TradeAtlas, using Office of Aerospace and Automotive Industries' selection of 6-digit HTS codes.

Australian parts firms also tend to ship most of their parts to the traditional markets of the major global vehicle manufacturers. U.S. import tariffs on auto parts are already relatively low, but zero tariffs will help to give Australian manufacturers a slight advantage against their competitors, given generally slim industry margins. Elimination of tariffs will also help to increase U.S. exports and make them more price competitive against foreign competition in Australia.

The Australian Auto Parts Market

Australian cars are right-hand drive. There are more than 12.5 million vehicles on the road in Australia, and according to the Federation of Automotive Parts Manufacturers Association (FAPM), Australia has the third highest vehicle ownership rate in the world at over 600 vehicles per 1000 people. Australia also has one of the oldest average ages of passenger vehicles of roughly 10.8 years.

Australia's Federal Chamber of Automotive Industries reports that new vehicle sales in Australia were a record-high 909,844 units in 2003. According to the Chamber's latest figures, the Australian new car market is booming. Sales in the first quarter of 2004 were up by 11.1 percent on the same period as last year. Sales are forecast to exceed 960,000 by the end of the year. Factors driving sales include falling prices, a stable political and economic environment that encourage consumer confidence, a new

trend that Australians are changing their cars more often and a very competitive market where all the major world producers are represented.

The small passenger, light commercial and sports utility segments have experienced the strongest growth. Small passenger vehicles are not currently produced in Australia, thus have lead to an increase in import volumes and an expansion in the range of vehicle models in Australia. In 1992, there were 23 models in the small-light segment, with total annual sales of US\$98,000; ten years later, there are 46 models and sales of US\$161,000. Although sports utilities have also not been produced in Australia, local models are expected begin making inroads in 2004.

There are four vehicle producers in Australia - Holden, which in 2003 held 20.5 percent of the market, Ford with 17.3 percent, Toyota with 20 percent and Mitsubishi with 7.9 percent - all of which are subsidiaries of major overseas producers. They produce five passenger vehicle models (and derivatives of those models) at four plants in Victoria and South Australia. Total sales of the four vehicle producers total approximately US\$12 billion.

There are more than 200 Australian firms producing automotive components for use as original equipment in new vehicles and for the replacement and accessories markets. An additional 500 firms provide specialized tooling to vehicle and component producers.

Growth in Australia's aftermarket has averaged over 5 percent over the past seven years. The aftermarket for replacement parts and accessories is a very significant element of Australian component producers' total sales. The market is estimated to be worth between US\$3.5 billion and US\$4.2 billion and is split fairly evenly between local producers and imports. Japan is the leading supplier, accounting for 30.61 percent of imports, while the United States is the second most important source of supply, with 24.04 percent of the market or US\$517 million.

Recently Australia has seen the near closure of its Mitsubishi plant, followed by the demise of GM Holden's Korean subsidiary brand, Daewoo both as a result of the strong competition. Nonetheless, the aging of the vehicle fleet, together with the growth of the domestic market and Australia's export-oriented automotive industry, translates to substantial opportunities for U.S. parts and accessories firms. The weakening of the U.S. dollar relative to the Australian dollar has also been improving U.S. competitiveness.

The Australian federal government recently announced the availability of A\$150 million dollars in research and development funding to be used for new and emerging technologies relating to vehicle weight reduction, fuel economy, emission improvements and improved vehicle safety. They have invited Australia's four car producers Holden, Ford, Toyota and Mitsubishi to apply for a share of the funding. This provides another opportunity for U.S. automotive parts manufacturers with promising technologies to partner with one of the four manufacturers.

According to U.S. & Foreign Commercial Service staff, the Australian automotive market provides excellent opportunities for U.S. suppliers of the following: compression-ignition internal combustion

piston engines, carburetors, piston rings, fuel injection products, transmission and ignition products, lubricants and fuel pumps, body repair kits and products, and automotive tools. In general, high-quality and competitively priced accessories are always in demand.

Trade Events

THE AAAA TRADE FAIR 2005

Date: April 7-9, 2005

Location: Sydney Convention and Exhibition Center

Frequency: Biennial

Exhibition Organizer: The Australian Automotive Aftermarket Association and Australian Exhibitions and Conferences

Tel: 61 3 9654 7773

Fax: 61 3 9564 5596

Email: aaaa@aec.com.au

Web Site: <http://www.aaaa.com.au> & <http://www.aec.net.au/aaaa>

THE AUSTRALIAN AUTO TRADE FAIR 2005

Date: June 17-19, 2005

Location: Melbourne Convention and Exhibition Center

Frequency: Biennial (alternates with Sydney)

Exhibition Organizer: Expertise Events Pty Ltd

Tel: 61 2 9938 9938

Fax: 61 2 9939 4229

Contact: Ross Hannan

Email: RossH@expertiseevents.com.au

Web Site: <http://www.ausauto.com/autotradefair2004> & <http://www.expertiseevents.com.au>

AUTO LOGISTICS & SCM WORLD AUSTRALIA 2005

Date: June 2005

Location: TBC

Frequency: Annual

Exhibition Organizer: Terrapinn Pty Ltd

Contact: James Jancu

Tel: 61 2 9005 0756

Fax: 61 2 9281 3950

Email: james.jancu@terrapinn.com

Web site: <http://www.terrapinn.com> &

http://www.autologisticsworld.com/2004/auto_AU/confprog.asp

4WD SHOW

Frequency: Annual

Exhibition Organizer: Exhibition & Trade Fairs Pty Ltd

Contact: Jason Humphris

Tel: 61 3 9567 4260

Fax: 61 3 9567 4261

Web Site: <http://www.4wdworld.com.au/newsevents/nat4x4show> & www.4x4show.com.au

Sydney: March, Sydney Convention and Exhibition Center

Brisbane: June 9-15, RNA Exhibition Grounds

Melbourne: October 21-24, Melbourne Exhibition and Convention Center

Sources

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